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VOL. CLIII NO. 141 Thursday, July 21, 1988 153rd Year

Today

First Interstate Bancorp was one of five major supperreginal companies that reported increases in earnings for the second quarter. ____2

Increases in nonperforming assets brought down earnings of thrifts on both coasts, but two Midwest companies reported strong results. ____2

Irving Bank Corp. and Mellon Bank Corp. — two embattled money centers — have reversed the losses reported in last year's second quarter.2

Service is increasingly important to winning the banking business of smaller companies, according to a survey by Greenwich Associates. ___3

The entrepreneur who built MTech into one of the largest bank data processing companies has started what he hopes will become a computer services empire. ____3

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CONSUMER FINANCIAL SERVICES

Tellers have been eliminated at the Hamden branch of Great Country Bank, replaced by representatives who provide services at individual workstations. ____12

Customer demand for one-stop services has led Rainier Bank and others to open branches in supermarkets. And International Banking Technologies is helping them pursue their supermarket strategy. ____6

A complaint department at Citytrust in Trumbull, Conn., has developed into a centralized location for product information. ____7

A group of Kentucky banks are engaged in a credit card feud, enticing Louisville-area customers with suspended finance charges and annual fees, plus bonus points for purchases. ____7

A series of Swiss television ads is promoting identity verification for depositors at a time when banking rules in Switzerland are being tightened to ensure that less and less illegally gained money is laundered through bank accounts. ____7

Chemical Bank doubled to 18 the number of branches paying consumers $5 each time they wait more than seven minutes for a teller. ____7

Marketing executives and issues must be given a prominent place on the agenda of a bank's planning retreats if these sessions are to yield profitable strategies, writes Barry I. Deutsch in Marketing Management.4

Worth Repeating

I don't think banking will improve from the consumer standpoint until banks recognize that tellers are really their frontline people.

Sheri Pasqualoni, vice president at Great Country Bank, which has upgraded the teller position and eliminated lines. [Page 12]

Regulators Force Bankers Trust To Cut Earnings by $80 million

By JED HOROWITZ

NEW YORK — Bankers Trust New York Corp., which dazzled the banking community with $338 million of foreign exchange profits in fourth-quarter 1987, has been forced by regulators to cut those earnings by $80 million.

The unusual action by the Federal Reserve Bank of New York means Bankers Trust will file an amended call report for 1987 that slices foreign exchange trading income 24% for the fourth quarter to $258 million and to $513 million for the year.

The nation's eighth largest bank company said its restatement will have no material effect on its previously reported numbers because it also is reducing salary expenses for the quarter by $80 million.

In a statement, the bank said the salary giveback will come from bonus accruals that were "ultimately to be paid" but not yet announced to employees. Salary expenses for the fourth quarter after restatement were $212 million, the bank said.

Separately, Bankers Trust reported Wednesday that it earned $174.1 million for the second quarter of 1988, or $2.18 per share. The firm took a $554 million loss during the period last year, due to a special provision against possible losses on loans to developing countries.

In two key measures of profitability, the firm returned $1.21 on every $100 of assets and $22.39 on every $100 of

Bankers Trust: Page 8 ➡

2 Texas Banks Set to Merge With FDIC Aid

Minnesota Exec to Buy Resulting $8-Billion Firm

By BARBARA A. REHM
Washington Bureau

WASHINGTON — In a $675 million rescue plan, Texas American Bancshares Inc. and National Bancshares Corporation of Texas will merge, be recapitalized with cash from the Federal Deposit Insurance Corp., and then be sold to a prominent Minnesota banker.

The deal, announced in Dallas on Wednesday, combines the two companies to form Texas' fourth largest banking firm, with $7.8 billion in assets. The FDIC will recapitalize the new company with a $475 million cash infusion, but the agency will assume none of the company's assets.

Carl R. Pohlad, a 72-year-old Minneapolis financier who built his fortune in banking and bottling, will kick in $200 million.

Texas American, a $5 billion-asset institution in Fort Worth, and National Bancshares, a $2.8 billion-asset institution in San Antonio, both have nonperforming asset ratios of 13%.

Frank W. Anderson, a banking analyst with D. Latin & Co., Dallas, predicted on Wednesday that the two companies' second-quarter losses will exceed the first quarter's. Together, Texas American and National Bancshares lost more than $29 million during the first three months.

Mr. Pohlad is worth more than $550 million, according to the Forbes 400 list of the country's richest people. In addition to owning about 40 banks with a total of $4 billion in assets in the

Texas: Page 8 ➡

DEMOCRATIC NATIONAL CONVENTION

Lobbyists Out in Force in Atlanta

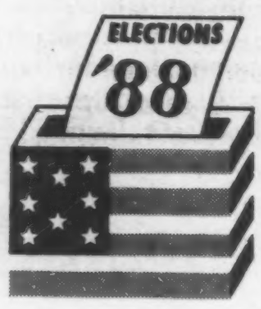
By ROBERT M. GARSSON
Washington Bureau

ATLANTA — Bank industry lobbyists remember Jonathan Sallet best for a long night he spent on Capitol Hill in March negotiating with Senate staff members in an effort to limit bank insurance powers.

Bankers were dismayed by the compromise reached that night, which was incorporated into the banking bill. They were even more upset that Mr. Sallet had been allowed in the room at all, since other lobbyists had been barred.

This week, Mr. Sallet has been at work on compromises of a different sort. A Democrat who has begun to play an active role in presidential politics, Mr. Sallet is at the Democratic National Convention as special counsel to the party's rules committee, which helped in a delicate set of talks between the Jackson and Dukakis camps.

The trade groups representing the financial services industry are here in force this week, some as Democrats working on presidential politics and others as lobbyists, working on the same legislative issues they pursue back in Washington. Some, including Mr.



In Atlanta: Page 8 ➡

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IN THE NEWS

Freddie Mac Offers New Pool

WASHINGTON — The Federal Home Loan Mortgage Corp. introduced a new program that allows home lenders to securitize 15-year or 30-year fixed-rate mortgages into pools with a face value as small as $250,000.

Under the new MultiLender Swap Program, mortgages from several lenders are pooled together with mortgages purchased for cash by Freddie Mac. Each lender receives a Freddie Mac cash pool participation certificate representing its share.

The product is a response to "Fannie Majors," introduced by the Federal National Mortgage Association in January 1987. The Fannie Mae program allows lenders to pool small batches of mortgages together to form big pools, which can be securitized at more attractive rates. Lenders have securitized $8.1 billion worth of small mortgages using Fannie Majors since the program was begun.

Thorn Acquires Software Firm

NEW YORK — Thorn EMI PLC, London, is acquiring Financial Trading Systems Inc., New York, through its Thorn EMI North America unit, headquartered in Chelmsford, Mass. Financial Trading Systems is a privately held securities trading support software developer. The deal cost Thorn EMI about $35 million.

Financial Trading Systems will operate as part of Software Sciences, a division of Thorn Software. The acquisition is part of Thorn's push to establish a substantial Wall Street-based financial systems operation, active in trading systems and related institutional activities.

Among Financial Trading Systems' current offerings are a front- and back-office trade processing system and an institutional portfolio data management system. The company, which had revenues of $23 million in 1987, is a subsidiary of Drexel Burnham Lambert Inc.

Shearson Earnings Drop

NEW YORK — Shearson Lehman Hutton Holdings Inc. said it earned $51 million, or 51 cents per share, in the second quarter, down 20% from a restated $64 million, or 68 cents per share, a year earlier. Revenues in the second quarter were $2.53 billion, up from $1.7 billion in the earlier period.

Shearson's acquisition of E.F. Hutton last winter substantially increased both total revenues and operating expenses. The latter rose 54% in the quarter to $2.46 billion.

Shearson, like other large retail firms, said it suffered a slowdown in commission revenue. All of its revenue sectors showed gains, however, led by a 45% rise in investment banking fees to $395 million.

Household Buys Visa Portfolio

LOS ANGELES — Household Bank agreed to acquire the $38 million Visa credit card portfolio of troubled Beverly Hills Savings and Loan Association, Mission Viejo, Calif. The terms of the deal were not disclosed.

Household, based in Prospect Heights, Ill., is one of the 15 largest issuers of bank cards in the nation. The employees of Beverly Hills' credit card department will be offered jobs at Household's servicing facility in Irvine, Calif.

Beverly Hills, which has assets of $1.26 billion, was seized by thrift regulators in 1985 and is in the process of selling its operations. The credit card transaction is expected to be completed by July 28 if regulators approve.

— Compiled by Dennis P. O'Connell

Survey: Small Firms Looking for Bank Service

By DAVID NEUSTADT

NEW YORK — Service is increasingly important in winning the banking business of smaller companies, according to the findings of a Greenwich Associates survey of 15,888 companies with revenues from $5 million to $50 million.

Bankers have always used lending as the main way to win small business accounts, but that is no longer enough, according to David Fox, a partner in the Greenwich, Conn., market research firm. "Lending is still the No. 1 criterion, but there are so many competitors that you need to do more than offer a loan to win the day," he said.

Small companies, just like their bigger brethren, want other products besides loans, and they want quality service.

The study indicates that credit and service are becoming more equal considerations in a small company's selection of a bank.

In a similar survey in 1986, when companies were asked what was most important to them in a bank, credit-related factors were cited by 70%; 65% gave service-related answers. In 1988, credit-and-service-related answers were given equal weight — both were cited 67% of the time.

A bank's willingness to lend remained the most frequently cited consideration in choosing a bank, but it fell to 63% in 1988 from 66% in 1986. Meanwhile, more attention from the bank account officer was important to 60% of the companies in 1988, compared with 56% in 1986.

Even on a credit-related question — how companies select a bank for active credit use — the top answer was service oriented: the bank's ability to act quickly.

One finding of the survey indicates that banks may not be delivering service very well. Seventeen percent of the respondents received no visits from their lead banks in the past year, 13% received only one visit, and 16% got two visits a year. Thus, almost half the group got two or fewer visits from their lead bank in the past year.

Smaller companies in the group were more likely to be getting few or no visits, Mr. Fox said. He called it a mistake to decide those clients are not worth the effort.

"With inflation and real growth, which usually total 9% a year, a $10 million company is going to be a $20 million company in five to six years," he said. "Which makes more sense: waiting until the company gets big and trying to capture it as a client, or getting it now when it is not using many banks?"

The survey also found that unsecured lending is replacing secured lending, a sign of the increased competition among banks. "It's a signal of more aggressive lending," Mr. Fox said.

For example, 40% of the respondents now use confirmed lines of credit, up from 33% in 1985. Use of revolving loans that are convertible to term loans has more than tripled, to 20% from 6% in 1985.

Over the same time period, use of accounts-receivable loans fell to 18% from 32%, while use of inventory loans dropped to 15% from 26%. Among secured types of lending, only leasing increased, to 27% from 17%.

Offering unsecured loans and cutting prices are not the best ways to compete for business from small companies, Mr. Fox said.

"If banks provide a commodity, then price drives it; if they provide service, other things drive it as well," Mr. Fox said. "The account officer is the pivotal point in turning what banks can offer from a commodity into service." ■

More Small Firms Use Unsecured Lending

Survey finds drop in percentage of companies with secured loans

	1985	1986	1987	1988
Unsecured				
Confirmed line of credit	33%	45%	41%	40%
Revolving loan convertible to term loan	6	12	18	20
Nonrevolving term loan	7	8	18	19
Secured				
Equipment loans	39	39	38	39
Leasing	17	19	27	27
Accounts receivable loan	32	26	21	18
Inventory loans	26	21	20	15

Source: Greenwich Associates survey of 15,888 companies with revenues from $5 million to $50 million

Former MTech Chief Hopes for Another Winner

Darwin Deason's Start-Up Will Handle Data Processing for First Texas Financial

By JEFFREY KUTLER and DAVID LaGESSE

Darwin Deason, the entrepreneur who built MTech Corp. into one of the largest bank data processing companies, has started what he hopes will become a computer services empire.

The former MTech chairman leads an investor group that is forming a new company, Affiliated Computer Systems Inc., which will take over the data processing activities of First Texas Financial Corp., a Dallas-based thrift holding company.

Mr. Deason is chairman and chief executive officer of Affiliated. Charles "Chick" Young, a former MTech division president, is president and chief operating officer.

The investor group includes Gibraltar Savings Association, Houston, a subsidiary of First Texas.

Affiliated is acquiring three computer-related business units of First Texas: the MoneyMaker division, which markets automated teller machine services; TransFirst Corp., a processor of ATM and other electronic transactions; and First Texas Computer Corp., which does the data processing for 1.5 million customer accounts of Gibraltar Savings and First Texas Savings Association, Dallas.

Mr. Deason said he expects to use the First Texas business as a nucleus around which to expand Affiliated. In that way he is attempting to repeat his earlier success with MTech, which had sales of $237 million in 1987.

Affiliated's mix of businesses — basic data processing augmented by more specialized, electronic transaction services — is similar to MTech's, though on a smaller scale. MTech provides software and computer services to several hundred banks and operates the 1,200-machine Mpact ATM system.

The company name is the same as that of the firm Mr. Deason founded in 1968, which later became known as Mtech. In 1976, Mr. Deason sold the original Affiliated Computer Systems to Mercantile Texas Corp., a Dallas-based bank holding company that was its major customer. Affiliated changed its name to MTech when Mercantile became MCorp.

Mr. Deason left MTech in April 1988 after MCorp, in a move to raise capital, agreed to sell its 80% stake in the data processing company to Electronic Data Systems Corp. for $234 million. EDS, a subsidiary of General Motors Corp. also based in Dallas, acquired the remaining shares of MTech in June.

Mr. Deason, 48, reportedly made about $6 million himself from the sale of MTech. He is investing part of that in the new company, along with Gibraltar and other unidentified investors, and eventually might seek to take the company public.

MTech and its new parent, EDS, apparently did not secure a no-compete agreement from Mr. Deason when he left the company, and the First Texas acquisition gives Mr. Deason a foundation on which to compete with his former employer.

Mr. Deason has already approached a number of other financial institutions as potential clients for his venture, but he could run into a legal fight if he solicits MTech clients, sources said.

Sources familiar with the negotiations between Mr. Deason and First Texas said the investor group would hold a controlling interest in the voting stock of Affiliated. First Texas would retain a majority share of the profits from current contracts, but that mix would change as new business is gained under Mr. Deason's leadership.

When the formation of Affiliated was announced earlier this week, Mr. Deason issued a statement saying, "This is a very exciting opportunity. ACS begins its operation with a strong financial base and employees of exceptional skill and talent.

"Furthermore, TransFirst and First Texas Computer Corp. make a perfect fit. The combination of their financial institution processing systems with the TransFirst/MoneyMaker EFT [electronic funds transfer] products results in a complete product offering . . . to other financial institutions and businesses."

"TransFirst has been exceptionally successful during its initial development and is now ready for broader ownership and management," said J. Livingston Kosberg, chairman and chief executive officer of the Gibraltar and First Texas associations. "Darwin Deason and his investor group bring a proven and most successful management team plus considerable future business opportunities."

The MoneyMaker network of 900 ATMs, most of them in Texas 7-Eleven stores, handles more than three million transactions per month.

First Texas' MoneyMaker division provides ATM support services to 85 other financial institutions with 135 ATMs in Texas, Arkansas, and Louisiana. ■

July 21, 1988, American Banker

Using the Strategic Planning Retreat Profitably

By BARRY I. DEUTSCH

SOME COME with outside speakers to help broaden perspectives. But some organizers believe in keeping the circle closed. Some have built-in breaks for recreation to help develop the teamwork needed for the rest of the year but some are organized so that noses are to grindstones at all times.

My favorites include late-night games of chance, although I'd have to admit that the only times I've ever profited from these was when I had an associate whose judgment at the backgammon table diminished at the same pace as the ingredients of the bottle of Irish whiskey at his side.

If Theodore Roosevelt had been director of marketing instead of President of the United States it would have been strategic planning retreats, not the presidency, that he would have called lovingly his "bully pulpit."

Many of the vital issues confronting managements that are serious about the concept of strategic planning are, if not marketing issues, issues that can be better understood in marketing contexts. And, it is at the planning retreat — a staple in anyone's planning process — that the marketing director can most effectively focus attention on the marketing agenda.

Deutsch Says:

Becoming a true low-cost producer means determining to provide less service for less cost, appealing to bargain seekers, and enjoying the rewards of low margin offset by high volume.

Don't make a mistake. There is a sufficiency of particularistic marketing issues: promotional strategies, product-naming approaches, centralization of marketing support, institutionalizing cross-selling. But particularizing is not the best use of the bully pulpit.

Who's *Really* Market-Driven?

The planning retreat, whether held on-site or off-site, with or without poker, provides the best opportunity for the issues-aware marketing director to force an organization to confront the degree to which it is market driven in the broadest possible terms.

It's expected, almost as a matter of course, for a modern financial services company to claim to be market driven — and many are. The litmus test is whether the organization is easily led to recognizing its vital issues as marketing issues.

The question of where to compete, selecting geographic markets to enter, or market segments to address, is a marketing issue because the likelihood of success is greatly enhanced if the target markets are better understood. The appropriate use of marketing, moreover, might well help avoid a frequently encountered strategic error, that of entering markets where there is either no profitability or little chance of success.

The marketing director needs to force the discussion beyond the numbers and beyond the cliche of "We have to do it, just to fly the flag." The discussion has to move, for example, to the competitive environment, likely competitive reaction, and whether the company will have the ability to influence prices, and therefore, profitability.

Taking a Firm Stand on Product, Price

The question of how to compete is another line of strategic thought for the the marketing professional. The bank must be led to a point of view couched in conceptual marketing terms. The issue breaks down into two subsidiary questions, the articulation of a product strategy and a pricing strategy.

Planning processes nurture words as much as they do concepts. The phrase in vogue a few years ago was "niche strategy." That it was little understood and less well practiced is beside the point.

The point is that niching is viable if we define niches carefully. Too many times, the concept has been put into practice as a random walk through a list of products.

It doesn't work to offer a few products that might appeal to certain users. It works better to become known, for example, as a bank for health care providers, local governments, or whatever — as long as we agree to take the time to learn all there is to know about health care, local government, or whatever — so that we can position ourselves to succeed in those niches. It also means understanding the competition in the niche because no niche is unoccupied and in some we will encounter players rarely seen on the broader stage of the mass market.

How to compete also means addressing the age-old question, do I want to be a low-cost producer or an adder of value? Many planners will overlook the obvious conclusion that the two approaches are meant to be mutually exclusive. A bank can't be both.

Becoming a true low-cost producer means determining to provide less service for less cost, appealing to bargain seekers, and enjoying the rewards of low margin offset by high volume.

Becoming a value adder is different. It means providi[illegible] quality at higher prices and accepting lower volume but commensurately higher margins. What happens if you mix and match?

Quality of Service Comes at a Price

The profitability-measurement staff will blow the whistle on the low-price/high-quality combination because the financial result will speak for itself. I've got to admit that I know there are marketing directors who don't understand the error of this approach. The zeal with which many are embracing the quality-customer-service movement is not always matched by an understanding that there needs to be a price paid for quality.

The high-price/low quality cell of the matrix should fail on its own. Whatever one's view of the value of market share, it is clear that no company can operate without customers and high prices matched with low quality of performance subtracts down to no customers.

Despite the tightness of the tautology, I am amazed at how many banks try to get away with defying it. It's an issue that cries out for full review during the strategic planning retreat.

After we've licked where to compete and how to compete, we're still left with another key strategic issue whose marketing implications are often overlooked, how to assemble the business. The marketing director has an important contribution to make in framing the organization's merger and acquisition strategy, an important byproduct of the larger strategic process.

There is a mystique to the process of doing deals. When the M&A rubber meets the investment banker's road, the marketing director is often left in the hallway watching the action through cracks in the closed door. Often marketing is called in only at the point where someone wants to get 100 copies of the tombstone embedded in lucite.

Before it gets to that point, however, there could well be some important strategic discussion revolving around the questions of targeting acquisitions. Its important to understand the why of the merger and acquisition activity.

Mergers with a Purpose

Among the objectives might be achieving easier entry into certain markets, building sustainable competitive advantage, achieving economies of scale, enhancing profitability, achieving market-share goals, positioning the organization for further growth, or protecting the acquiring organization from takeover.

All of the above might be valid in individual cases. The strategic planning

Marketing: Page 8 ➔

Mr. Deutsch is executive vice president of BankAtlantic, Fort Lauderdale, Fla., a federal savings bank.

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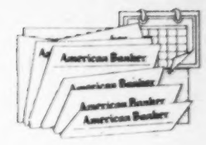
FLASHBACKS

What made news in the *American Banker* this week...



40 Years Ago

• The tentative platform for the third party led by presidential candidate Henry Wallace called for nationalization of "the largest banks, along with the railroads, the electric power and gas industry, and industries dependent on government funds and purchases." The tentative platform draft said "the cure for the excesses of private monopoly is democratic control through public ownership."

• The report of the Johnston Committee, headed by Percy H. Johnston, chairman of the executive committee of the Chemical Bank & Trust Co., recommended a "virtual 'green light'" for Japan's economic recovery, including a more realistic exchange rate and the removal of obstacles to foreign private investment. The committee, commissioned by the Department of the Army to visit Japan and Korea and make recommendations for the improvement of their economies, also urged that Japan's products be admitted to the world's markets if they were fairly competitive and fairly marketed. The committee further urged that Japan import its food from sources cheaper and closer to it than the United States.

20 Years Ago

• President Johnson nominated Irvine H. Sprague, a member of his White House staff, to fill a vacancy on the board of the Federal Deposit Insurance Corp. Mr. Sprague, whose background was in politics and journalism and who had no previous banking experience, came to Washington in 1957 to serve on the staff of Rep. John J. McFall, D-Calif., and left the post in 1963 to serve as California's deputy director of finance.

10 Years Ago

• The General Accounting Office told a House subcommittee that federal law enforcement agencies could accept a substantially reduced role in bank robbery cases without impairing investigations or reducing the number of prosecutions. It was also learned that the GAO was preparing a report on bank protection devices that probably would recommend that banks be required to install more monitoring cameras.

5 Years Ago

• Treasury Secretary Donald T. Regan defended before Congress an administration proposal to expand bank and thrift holding company activities, saying it would benefit consumers and would not lead to a disaster such as the one that following the 1929 stock market crash. Worries about another crash, Mr. Regan said, were "overblown" because financial markets in the 1980s are more sophisticated, more technologically advanced, and are overseen by a more powerful federal regulatory system.

1 Year Ago

• Citicorp posted the largest domestic bank loss — just under $2.6 billion — which it had predicted when it announced a $3 billion special provision to its reserves for possible Third World loan losses in the second quarter. Among other major banks that posted losses attributed to increased loan-loss reserves were Bankers Trust New York Corp., $554 million; Manufacturers Hanover Corp., $1.37 billion; Security Pacific Corp., $172.4 million; and Bank of Boston Corp., $83.7 million. First City Bancorporation of Texas, Houston, posted a loss of $116.4 million for the quarter, which it attributed to mounting real estate problems and Third World loans. First RepublicBank Corp., Dallas, announced a loss of $313.2 million, attributed primarily to international loans.

• Alan Greenspan told the Senate Banking Committee at his confirmation hearing for Federal Reserve Board chairman that he favored expanded bank powers but would be uncomfortable acting without more guidance from Congress.

• Security Pacific Corp., Los Angeles, won approval from the Fed to acquire Rainier Bancorp., Seattle.

— Domenica Trevor